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**COUNTY OF SAN BERNARDINO,
CALIFORNIA**

MANAGEMENT LETTER

JUNE 30, 2008

Mgt. Ltr.
4/1/09



November 26, 2008

To the Board of Supervisors,
Audit Committee
County of San Bernardino, California

Ladies and Gentlemen:

We have audited the basic financial statements of the County of San Bernardino (the County) for the year ended June 30, 2008 and have issued our report thereon dated November 26, 2008. In planning and performing our audit of the basic financial statements of the County, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

During our audit we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

PAYROLL / PAYROLL EXPENSE

OBSERVATION:

During the process of performing certain procedures to determine if accrued payroll was fairly stated, it was noted that the journal entry to record the accrual was incorrectly posted, which resulted in an adjustment of approximately \$29.5M to properly state the liability and related expenditure related to this entry.

RECOMMENDATION:

While we believe this to be an isolated incident and the proper correction was made by management. We recommend that the County strengthen its year-end closing procedures to ensure that all year-end journal entries are reviewed throughout the closing process and preparation of the financial statements.

RESPONSE:

The ACR office will implement additional procedures in FY09 to strengthen its year-end closing procedures. All worksheets supporting a financial statement accrual and/or any other journal entry will be enhanced to include a reconciling check figure between the supporting computation and the financial statements. This will facilitate and document subsequent review and analysis of all of year-end payroll accrual documents.

CASH AND INVESTMENTS / LONG-TERM DEBT

OBSERVATION:

During the process of performing certain procedures over cash and investments it was noted that the County had approximately \$5.2M recorded as cash and investments that were in an escrow account from a refunding that occurred during the fiscal year 2008. Additionally, the long-term debt that was partially defeased with the proceeds in the escrow account (\$5.2M) had not been removed from County's book. Corrections were made by management to reduce the cash and investments and long-term debt by \$5.2M.

RECOMMENDATION:

While long-term debt refunding transactions do not occur on a yearly basis at the County, we recommend that when these transactions occur that they are properly reviewed by management.

RESPONSE:

The ACR office is currently developing a procedure manual for long-term debt refunding transactions. This manual will include illustrations of journal entries and disclosures required in accordance with the requirements of GASB 7. The procedure will include steps to ensure the analysis and review of long-term debt refunding is properly performed.

**STATUS OF PRIOR YEAR MANAGEMENT LETTER COMMENTS
YEAR-END CLOSING PROCEDURES
REVENUE CUTOFF**

RECOMMENDATION:

In FY 2007, we recommended that the ACR implement additional procedures to ensure that material revenues are recognized in the proper period. These procedures should include the following:

- Departments should be instructed to examine revenues received prior to the end of each fiscal year to determine if those revenues pertain to the current or subsequent fiscal year to ensure proper recognition in accordance with GASB 33. Those revenue received prior to the end of each fiscal year that pertain to subsequent fiscal years not meeting the recognition criteria of GASB 33 should be deferred for financial reporting purposes in accordance with Section IV of the County's Year End Closing Manual.
- Based on the outcome of these results, document and record necessary adjustments to the financial statements.

By implementing additional procedures, material transactions requiring accrual or deferral may be identified and corrected in a timely manner to ensure the County achieves proper cut-off for the Auditor/Controller/Recorder's (ACR) preparation and completion of the Comprehensive Annual Financial Report (CAFR).

COUNTY OF SAN BERNARDINO

November 26, 2008

STATUS AS OF JUNE 30, 2008:

Implemented – We noted the County implemented additional procedures during FY 2008 that included reviewing material revenues to ensure proper recognition in the FY. No exceptions were noted as a result of our audit in regards to revenue cutoff.

LANDFILL CLOSURE/POSTCLOSURE CARE LIABILITY

RECOMMENDATION:

In FY 2007, we recommended that the County implement stronger internal controls, such as management review or recalculation procedures, to ensure the completeness and accuracy of the County's landfill liability estimates recorded in the County's financial statements.

STATUS AS OF JUNE 30, 2008:

Implemented – We noted the County implemented additional procedures during FY 2008 that included management review and the County's internal auditor's review to ensure the completeness and accuracy of the County's landfill liability. We noted no exceptions.

FEDERAL AWARD REPORTING

RECOMMENDATION

In FY 2003, we recommend that the County modify its procedures to classify current year revenues to be based on the proper allocation to either federal or state revenue source object codes. By implementing such a procedure, this would streamline the reporting process required under OMB Circular A-133 and provide additional control over the presentation of the SEFA.

STATUS AS OF JUNE 30, 2008:

Partially Implemented.

We noted the County's current accounting system has limited capability in allowing the County to track both Federal and State funded expenditures that would allow for the compilation of the Schedule of Expenditures of Federal Awards through the Financial Accounting System using object based account codes. As a compensating control, on an annual basis, the County sends each department a Single Audit Risk Assessment Questionnaire to facilitate capturing the total federal awards expended in each year. This data is captured and recorded in a data base maintained by the Internal Audit Division. The financial data is randomly tested for accuracy through the use of querying tools within the County Financial Accounting System. The County has represented that the Auditor Controller-Recorder's Office will work with other County departments to re-evaluate the current procedures for future modifications. In addition the Auditor/Controller-Recorder's Office will continue the training classes for the departments on providing the necessary information for the preparation of the Schedule of Expenditures of Federal Awards.

NEW FINANCIAL REPORTING AND AUDITING STANDARDS EFFECTIVE FOR FISCAL YEAR
2008/2009

INFORMATIONAL ONLY

GOVERNMENTAL ACCOUNTING STANDARD No. 49

In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This statement is not effective until June 30, 2009.

GOVERNMENTAL ACCOUNTING STANDARD No. 51

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement establishes accounting and financial reporting standards for many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. This statement is not effective until June 30, 2010.

GOVERNMENTAL ACCOUNTING STANDARD No. 52

In November 2007, The GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2008.

GOVERNMENTAL ACCOUNTING STANDARD No. 53

In June 2008, The GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement is intended to improve how state and local governments report information about derivative instruments—financial arrangements used by governments to manage specific risks or make investments—in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009, with earlier application encouraged.

COUNTY OF SAN BERNARDINO

November 26, 2008

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the County gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the Board of Supervisors, Audit Committee, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Varemit, Tami, Day & Co., LLP

Rancho Cucamonga, California

November 26, 2008